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OMEGA

hydrocarbons Ltd.

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ANNUAL REPORT 1976

DIRECTORS

T. Jack Hall, Calgary
Henry Higgins, Calgary
Ernest M. Braithwaite, Calgary

OFFICERS

President — T. Jack Hall
Vice President — Arthur L. Evans
Secretary — Ernest M. Braithwaite
Treasurer — Henry Higgins
Assistant Secretary — E. Violet Hall

HEAD OFFICE

Suite 630, 330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

AUDITORS

Thorne Riddell & Co.
Chartered Accountants
1400 Bow Valley Square 2
205 - 5th Avenue S.W.
Calgary, Alberta T2P 2W4

REGISTRAR

The Canada Trust Company
239 - 8th Avenue S.W.
Calgary, Alberta T2P 1B9

TRANSFER AGENTS

The Canada Trust Company
239 - 8th Avenue S.W.
Calgary, Alberta T2P 1B9

SOLICITORS

Macleod, Dixon
555 Bentall Building
444 - 7th Avenue S.W.
Calgary, Alberta T2P 0Y1

BANKERS

Bank of Montreal
604 - 8th Avenue S.W.
Calgary, Alberta T2P 1G4

Annual General Meeting

The Annual General Meeting of the shareholders of Omega Hydrocarbons Ltd. will be held at The International Hotel, Room 205, 220 - 4th Avenue S.W., Calgary, Alberta on Friday, the 17th day of June, 1977 at 3:00 p.m. (local time).

261-0743



Jack Hall

Bonnie Foote

Art Evans

DIRECTORS' REPORT

To the Shareholders of
Omega Hydrocarbons Ltd.

Omega Hydrocarbons Ltd., during the year ending December 31, 1976 established record cash flow and net earnings from oil and gas production of \$330,905 and \$318,544 respectively which includes extraordinary items. It is expected that income and earnings from production will continue to increase substantially over the next year as the full effect of increased production of oil from the Waskada area and increased prices of crude oil will be felt.

The Company expended \$118,000 during 1976 on a re-entry and completion of a new oil well at Waskada, Manitoba, installed waterflood facilities and upgraded battery facilities, most of which was designed to accommodate a four fold increase in oil production. This program has been successfully completed and studies currently underway will determine what additional work should be undertaken.

Land holdings have been improved dramatically with the acquisition of a 53,320 acre permit in the North West Territories and the acquisition of several leases in Manitoba. Subsequent to year-end, the Company acquired a number of leases and licences in the Province of Alberta, increasing the total holdings to 78,050 net acres.

Mr. Arthur Evans joined Omega in December, 1976 and was appointed Vice President of Exploration. With his vast background and experience in exploration over the past number of years, Omega has embarked on an active exploratory program.

During the next twelve months, Omega will drill an exploratory well on its wholly owned block of land offsetting its producing wells in Waskada, Manitoba and based on the results of the first well, additional wells may follow. In addition, the Company will undertake a number of development and exploratory programs, any of which could lead to a substantial commitment of funds. It is the further intention of management to engage in purchasing oil and gas properties in Canada and the United States.

To augment financing, the Company has established a line of credit with its bank which will be supplemented from other sources, currently under active negotiations.

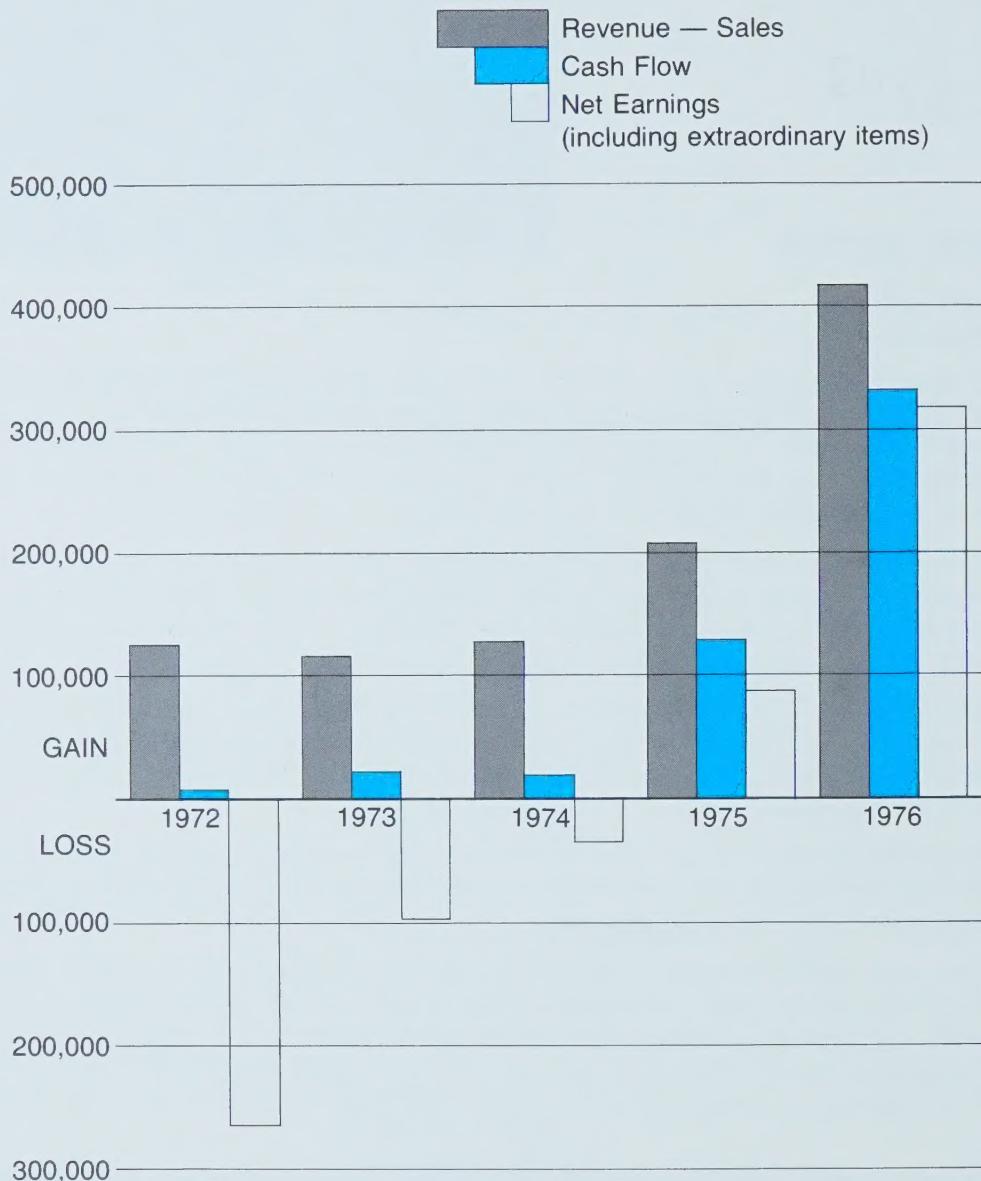
As a result of the improved financial position of the Company, your management anticipates an active program of development and exploratory drilling as well as purchasing additional lands and productive properties during the current year.

ON BEHALF OF THE BOARD

T. Jack Hall,
President

Calgary, Alberta
May 31, 1977

OMEGA HYDROCARBONS LTD.



Omega Hydrocarbons Ltd. is a viable Western Canadian oil and gas company, having producing properties in Alberta, Saskatchewan and Manitoba. It was established in its present form as a result of the amalgamation of Omega Natural Gas Co. Ltd. and International Hydrocarbons Ltd. in November of 1967. Following this, the Company experienced a number of difficult years and in April, 1974, control of the Company was acquired by Mr. T. J. Hall, President and Chief Executive Officer. Cash flow and net earnings have reached new highs in 1975 and 1976 and management is confident of the Company's future. The present staff of three highly qualified individuals shown in the accompanying photograph are dedicated to showing improved earnings in this and subsequent years.

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OMEGA HYDROCARBONS LTD.

STATEMENT OF EARNINGS AND DEFICIT
YEAR ENDED DECEMBER 31, 1976

	1976	1975
REVENUE		
Oil and gas sales	\$ 418,579	\$ 207,268
EXPENSES		
Production	64,054	43,967
General and administrative	43,982	29,513
Interest and expense on long-term debt	23,315	27,250
Depletion	20,953	30,032
Depreciation	13,116	22,986
	<hr/> 165,420	<hr/> 153,748
 Earnings before income taxes and extraordinary items	<hr/> 253,159	<hr/> 53,520
INCOME TAXES		
Deferred	118,400	50,200
Alberta Royalty Tax Credit	(33,260)	(15,900)
	<hr/> 85,140	<hr/> 34,300
 Earnings before extraordinary items	<hr/> 168,019	<hr/> 19,220
EXTRAORDINARY ITEMS		
Gain on repurchase of 9% debentures (net of applicable deferred income taxes of \$7,600; 1975 — \$3,000)	24,525	15,307
Recovery of deferred income taxes (note 2)	126,000	53,200
	<hr/> 150,525	<hr/> 68,507
 NET EARNINGS	<hr/> 318,544	<hr/> 87,727
Deficit at beginning of year	(1,748,678)	(1,836,405)
DEFICIT AT END OF YEAR	<hr/> \$(1,430,134)	<hr/> \$(1,748,678)
 EARNINGS PER SHARE , based on weighted average number of shares outstanding		
Earnings before extraordinary items	<hr/> \$.06	<hr/> .01
Net earnings	<hr/> \$.12	<hr/> .04

BALANCE SHEET AS AT DECEMBER 31, 1976

ASSETS

BALANCE SHEET AS AT DECEMBER 31, 1976

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness	\$ —	\$ 31,737
Accounts payable	48,341	39,081
Accrued debenture interest payable	1,897	1,676
Current portion of long-term debt	—	23,500
	<u>50,238</u>	<u>95,994</u>
LONG-TERM DEBT (note 3)		
9% Series "A" convertible sinking fund debentures, due December 1, 1980	95,000	200,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)		
Authorized		
5,000,000 common shares of no par value		
Issued		
2,862,156 (1975 — 2,162,156) shares	1,813,961	1,743,961
DEFICIT	<u>(1,430,134)</u>	<u>(1,748,678)</u>
	<u>383,827</u>	<u>(4,717)</u>
	\$ 529,065	\$ 291,277

Approved by the Board:

 Erin Brant however Director

B. Hall Director

OMEGA HYDROCARBONS LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1976

	1976	1975
SOURCE OF FUNDS		
Income before extraordinary items	\$168,019	\$ 19,220
Items not involving working capital		
Depletion	20,953	30,032
Depreciation	13,116	22,986
Amortization of debenture issue expense	10,417	7,364
Deferred income taxes	118,400	50,200
	330,905	129,802
Issue of common shares	70,000	—
	400,905	129,802
APPLICATION OF FUNDS		
Fixed assets	117,795	115,877
Drilling deposits	12,075	—
Reduction in long-term debt	72,875	31,693
	202,745	147,570
INCREASE (DECREASE) IN WORKING CAPITAL	198,160	(17,768)
Working capital at beginning of year	3,341	21,109
WORKING CAPITAL AT END OF YEAR	<u><u>\$201,501</u></u>	<u><u>\$ 3,341</u></u>

OMEGA HYDROCARBONS LTD.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1976

NOTE 1 OIL AND GAS OPERATIONS

The Company follows the full cost method of accounting for costs related to the exploration and development of petroleum and natural gas properties. Such costs are accumulated on an area of interest basis and are amortized on the unit of production method based on estimated recoverable oil and gas reserves in each area or are written off to income if exploration activities in any area are determined to be unsuccessful.

NOTE 2 INCOME TAXES

As of December 31, 1976, the Company had approximately \$620,000 of exploration and development expenditures and undepreciated capital costs available for deduction against future taxable income (subject to final determination by taxation authorities).

NOTE 3 LONG-TERM DEBT

The 9% debentures are subject to annual sinking fund payments of \$50,000. As of December 31, 1976 debentures had been repurchased sufficient to satisfy the 1977 and 1978 sinking fund obligations and \$5,000 principal amount of debentures remained to be applied against the 1979 obligation.

The debentures are convertible into common shares, prior to maturity or cancellation, at \$2.00 per share to August 31, 1979. No debentures have been converted to December 31, 1976.

NOTE 4 CAPITAL STOCK

- a) During the year the Company issued 700,000 common shares to an officer and director for \$70,000 cash.
- b) As at December 31, 1976, 47,500 common shares are reserved for issue on conversion of the 9% debentures.

NOTE 5 STATUTORY INFORMATION

Remuneration paid to directors and senior officers (including all employees) of the Company during 1976 amounted to \$32,780.

OMEGA HYDROCARBONS LTD.

AUDITORS' REPORT

To the Shareholders of
Omega Hydrocarbons Ltd.

We have examined the balance sheet of Omega Hydrocarbons Ltd. as at December 31, 1976 and the statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
April 22, 1977

THORNE RIDDELL & CO.
Chartered Accountants



OMEGA
hydrocarbons Ltd.

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